

# CollegeCounts 529 Board Meeting

May 6, 2014

## MINUTES

### **Board Present:**

Chair Young Boozer  
Mr. Chess Bedsole  
Dr. Greg Fitch  
Dr. Mark Heinrich  
Mr. Daniel Hughes  
Dr. William Meehan

### **Board Absent:**

Mr. Dennis Beavers  
Lt. Governor Kay Ivey  
Mr. Mychal Smith  
Mr. Ronald Stokes

### **Others Present:**

Ms. Daria Story, Assistant Treasurer  
Ms. Glenda Allred, Deputy Treasurer  
Mr. Chad Wright, Program Director  
Mr. Jay Steinacher, Union Bank & Trust  
Mr. Austin Morgan, Union Bank & Trust  
Ms. Cari Kaup, Union Bank & Trust  
Mr. Jeremy Thiessen, PCA Consultants  
Mr. Mannik Dhillon, Wilshire Associates (by phone)  
Ms. Leah Emkin, Wilshire Associates (by phone)

Pursuant to written and public notice, the meeting of the Board of Directors of the CollegeCounts 529 Fund was held in the RSA Union Conference Room in Montgomery, Alabama on May 6, 2014.

### **Agenda Item 1.**

The meeting was called to order by Chair Young Boozer at 9:05 a.m.

### **Agenda Item 2.**

Roll was taken with a quorum present.

### **Agenda Item 3.**

Chair Boozer presented the minutes of the February 5, 2014 board meeting. A motion for approval of the minutes was made by Dr. Meehan, seconded by Dr. Heinrich, with unanimous approval.

### **Agenda Item 4.A.**

Chair Boozer called on Ms. Glenda Allred to introduce representatives from BIG Communications, the new marketing firm for the program. Ms. Allred introduced Mark Ervin, Chief Brand Officer, Nathan Stuckey, Director of Accounts and Rylee Roquemore, Assistant Account Executive. Ms. Allred stated that, historically, the program has spent approximately \$50,000 per month on advertising and marketing expenses and that she expects expenses to remain at or near that level going forward. Mr. Ervin then provided a brief overview of the firm stating that BIG was established in Birmingham in 1995 and that the firm currently employs 43 full-time employees. He stated that they are a full service firm offering public relations, strategy, media and creative services. Mr. Ervin then gave a

Powerpoint presentation that provided an overview of the proposed concept of brand strategy for CollegeCounts. He stated that they wanted to focus on the emotional aspects of saving for college as well as the accessibility of these accounts to all Alabamians. He provided a summary of the anticipated tone and manner of the campaign as well as strategies and tactics for achieving plan goals and objectives. Finally, he provided examples of the concepts for the creative aspects of the proposed marketing plan and explained how each fit into the overall plan. Mr. Hughes asked if the plan would include measurable goals for increasing plan accounts, etc. He stated that he realized that the primary focus of the plan was to market to in-state residents but he asked if the plan would also include strategies for trying to market to out of state participants. Mr. Ervin stated that a goal of the plan was to market the plan with quality content about the Alabama plan digitally, so that, it is searchable and creates positive PR for the program.

#### **Agenda Item 4.B.**

Chair Boozer called on Ms. Glenda Allred for a report on the scholarship program. Ms. Allred provided a summary of the changes that were made in year two of the program. She stated that the application deadline was extended by 13 days, the Estimated Family Contribution (EFC) was capped at \$12,500 and awards were made, with one to each of 61 counties, with the remaining selected based on the established formulas/weightings (no county requirement). Ms. Allred then provided information on the total number of applications received compared to year one as well as demographic information on award recipients and the number of recipients that would be attending each of the various in-state colleges and universities. She then provided a summary of additional marketing activities that would be pursued in the coming year including contacting schools in counties that did not have applications submitted, attending college/career events, reaching out to financial aid officers at colleges and pursuing additional marketing opportunities with the new advertising agency.

Chair Boozer stated that the scholarship program has generated cash flow of approximately \$600,000 annually over the past two years. In addition, the program received a contribution of approximately \$3.4 million from AHELC that, together, created the current corpus for funding scholarship awards. He stated that assets generated from fees have adequately funded scholarship awards for the first two years of the program. He stated that fees for this year are expected to be approximately \$850,000. Chair Boozer stated that the program currently holds \$8.8 million in assets. He provided for discussion various scenarios indicating what future payouts would be if the program continued to be based on fees alone and if a portion of the corpus was utilized. He said that, in order to fund annual awards of \$1 million, a payout of 1.75% of the corpus plus fees would be required. Mr. Hughes stated that sustainability of the program was very important. He mentioned that he was hesitant to associate the desired number of scholarships awarded solely with fees. He suggested that the board consider the option of offering additional awards as well as the possibility of increasing the dollar amount of the awards in future years. Chair Boozer stated that, at an annual payout of \$1 million, the number of \$4,000 scholarships awarded could be increased from 150 to 250 annually. He mentioned that those numbers assume that 100% of recipients would attend four-year schools when, in reality, some students would attend two-year schools which could increase the total number of awards even more. He stated that the issue would be one for the board to consider in future meetings.

#### **Agenda Item 4.C.**

Chair Boozer called on Mr. Chad Wright for the program report. Mr. Wright provided information on the program budget as well as asset statements for the Administrative and Opportunity Enhancement Funds. He provided a statement of cash flows for the Opportunity Enhancement Fund and stated that total market value of the assets has grown from approximately \$6 million as of December 31, 2011 to approximately \$8.8 million as of March 31, 2014. He then provided a summary of scholarship payments made to colleges and universities for the academic year. He stated that \$281,000 was paid during the Fall 2013 term and \$268,000 had been paid to date for the Spring 2014 term.

#### **Agenda Item 4.D.**

Chair Boozer called on Mr. Jay Steinacher for the quarterly program review. Mr. Steinacher indicated that there were 68,882 active accounts with total assets in the plan at \$1.18 billion, a 3.4% increase for the quarter. He stated that year over year assets were up 18.4% and assets held by Alabama residents have increased to a record level of \$443.1 million in over 30,600 accounts. Mr. Steinacher stated that rollover contributions from other plans continue to be solid as well, with \$7.0 million received during the quarter. He provided general statistics on the plan, indicating that the program continues to offer solid investment choice and diversity, with approximately 2/3 of the assets in the plan invested in equities and the remaining 1/3 in fixed income. He stated that the average age of account owners is

48 and the average age of beneficiaries is 12, with an average account size of approximately \$18,000. Mr. Steinacher went on to provide information on new account activity, contribution and withdrawal activity, portfolio assets by market value, asset allocation and beneficiary statistics. He stated that the in-state success rate of the program (number of Alabama accounts/state population under age 18) was 2.7%. Mr. Hughes asked that the success rates for comparable states be researched and that goals be established for improving the rate in 1-5 years. Mr. Steinacher then summarized marketing activity and provided samples of all Direct Plan and Advisor Plan marketing materials.

Mr. Steinacher stated that Mr. Will Shafferman had resigned in March from his position directing the grass roots marketing efforts for the program to relocate to the Washington D.C. area. He introduced Austin Morgan as Mr. Shafferman's replacement and stated that they were excited to have him and expected continued success for the program through his efforts. Mr. Steinacher added that Elizabeth Taylor would continue to spend time traveling from Nebraska to Alabama to assist with marketing efforts. He mentioned that he hoped to hire an additional person within the next several months to work full-time primarily in the northern part of the state. .

Mr. Steinacher asked Ms. Cari Kaup to provide information on the customer care process that Union Bank provides for the program. Ms. Kaup provided information on the web activity for the direct and advisor sites. She stated that there were over 26,000 visits to the Direct Plan site and over 18,000 visits to the Advisor Plan site during the quarter. In addition, she stated that the call center had assisted approximately 11,000 customers as well. She provided information on customer care standards, including call abandon rates and average answer times, stating that 98% of calls are answered by a live representative within 12 seconds. She stated that their representatives receive compliments daily regarding the competent, friendly service they provide. Ms. Kaup then provided a summary of the upcoming community events and stated that the schedule has been added to the calendar on the CollegeCounts 529 website.

#### **Agenda Item 4.E.**

Chair Boozer called on Mr. Mannik Dhillon and Ms. Leah Emkin of Wilshire Associates for the investment performance report. Mr. Dhillon provided commentary on the economy including domestic and international equity markets, fixed income markets and real estate and commodity markets. He stated that real GDP growth slowed during the fourth quarter of 2013 but remained solid at 2.6%. Growth in consumer prices slowed to begin 2014 with the Consumer Price Index up 0.1% in each of the first two months of the year. Mr. Dhillon stated that jobs growth had slowed during December, January and February but the overall unemployment rate fell from 7.0% in November to 6.7% in February. Mr. Dhillon then provided a summary of the individual fund portfolios for both the direct and advisor plans and provided commentary on fund performance compared to the relative benchmarks.

Mr. Dhillon then summarized a memo to the board outlining Wilshire's recommendation to add five individual fund options to the plan. He stated that the goal of adding these options was to broaden the availability of actively managed investment options within the individual fund portfolios. The recommended funds would provide investors with increased flexibility, choice and diversification in a cost-effective manner. The recommendations include the addition of the DFA Large Cap Value Fund, the DFA Small Cap Value Fund, the T. Rowe Price Institutional Large Cap Growth Fund, the Vanguard Explorer Fund and the Dodge and Cox International Fund. Mr. Dhillon stated that the existing fund options already provide quality, low-cost passive alternatives. He stated that the recommended funds would enhance the individual offerings by adding reasonably priced, actively managed funds. Mr. Hughes asked for clarification on the amount of assets Dodge and Cox has under management, particularly the size of the recommended fund. Mr. Dhillon stated that the fund currently held approximately \$58 billion.

Chair Boozer asked Mr. Jeremy Thiessen to provide a summary of the PCA review of the Wilshire recommendations. Mr. Thiessen stated that PCA had thoroughly reviewed the proposal. He stated that they viewed the recommendations as beneficial because the funds would only be available as single fund options (not in the age-based portfolios). In addition, the funds would provide complete coverage of equity investment styles, have experienced good absolute and relative performance and have reasonable fees. He stated that PCA, therefore, recommends that the Board approve Wilshire's proposal.

A motion to approve Wilshire's proposal to add five individual fund options was made by Mr. Hughes, seconded by Dr. Meehan, with unanimous approval.

**Agenda Item 4.F.**

Chair Boozer called on Mr. Thiessen for the consultant's analysis. Mr. Thiessen provided a summary of PCA's investment market risk metrics, fund performance and status report. He stated that there were two funds in the advisor plan that remain on watch status as of the end of the quarter—Cohen & Steers Dividend Value and ING Global Real Estate. One additional fund within the Direct Plan, the Vanguard Intermediate-Term Bond Index Fund qualifies for watch status.

Since being placed on watch, the Cohen & Steers Dividend Value Fund has trailed its benchmark by 2.3%. Relative underperformance is attributed to poor stock selection in the consumer, cyclical, technology and energy sectors. However, after several quarters of underperformance, the fund began to outperform its index during the fourth quarter and, over the last 12 month period has outperformed the benchmark by 1.6%. Mr. Thiessen recommended that, due to the fund's sustained improvement over the past several quarters, the fund be removed from watch status.

During the ING Global Real Estate Fund's 15 month watch period, performance has lagged behind the benchmark by 2.3%. However, while the medium-term performance remains in the caution range, the fund has seen improvement over the past several months and short-term performance remains in the "acceptable" range. Relative underperformance is attributed to security selection underperformance in Hong Kong, Australia and Singapore. The fund provides participants with solid, diversified international real estate exposure with no immediate concerns over relative underperformance. PCA recommends that the fund remain on watch status.

Mr. Thiessen recommended that the Vanguard Intermediate-Term Bond Index Fund within the Direct Plan be added to watch status as it has fallen short of the short-term performance criteria due to its rolling 12-month tracking error exceeding 0.4% for six consecutive months. He stated that PCA has followed up with Vanguard to determine why the fund's tracking error has increased in recent months. Although the fund is being recommended for watch status, he believes that the fund continues to fulfill its purpose in the Direct Plan by providing a low-fee, passive option for exposure to the intermediate-term domestic fixed income market.

A motion to accept the PCA recommendations to remove the Cohen & Steers Dividend Value Fund from watch status, leave the ING Global Real Estate Fund on watch status and add the Vanguard Intermediate-Term Bond Index Fund to watch status was made by Mr. Hughes, seconded by Dr. Meehan, with unanimous approval.

**Agenda Item 5.A.**

Chair Boozer directed board members to review the examiner's report of the CollegeCounts program and indicated that the report was positive and there were no findings reported.

**Agenda Item 5.B.**

Chair Boozer provided a copy of the CSPN year-end 529 report that provides aggregated data on 529 plans collected from 103 savings and prepaid tuition plans in 49 states for information and review.

There being no further business, a motion to adjourn was made by Dr. Meehan, seconded by Mr. Hughes with unanimous approval. The meeting adjourned at 11:25 a.m.

All detailed reports were received for information and are attached for reference.

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Chad Wright, Recording Secretary

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Young Boozer, Chair